



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

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In the Matter of: X  
X  
PROPOSED ACQUISITION OF CONTROL OF: X  
QUADRANT INDEMNITY COMPANY, a X  
Connecticut insurance company X  
by X Docket No. EX 06-103  
HARBOR POINT LIMITED, A Bermuda company, X  
HARBOR POINT RE LIMITED, a Bermuda domiciled X  
insurance company, and X  
HARBOR POINT U.S. HOLDINGS, a Delaware corporation X  
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### DECISION AND ORDER

#### I. INTRODUCTION

On October 11, 2006, Harbor Point Limited, a Bermuda company ("Harbor Point"), Harbor Point Re Limited, a Bermuda domiciled insurance company ("Harbor Point Re"), and Harbor Point U.S. Holdings, Inc., a Delaware corporation ("Harbor Point U.S." or collectively, "Applicants" or "Applicant"), filed an Application on Form A ("Application") with the Connecticut Insurance Department (the "Department") pursuant to 38a-129 to 38a-140 of the Connecticut General Statutes requesting approval by the Insurance Commissioner of the State of Connecticut ("Commissioner" or "Insurance Commissioner") for the Proposed Acquisition of control or merger (the "Proposed Acquisition" or "Merger") of Quadrant Indemnity Company, a domestic insurer organized under the laws of Connecticut ("Quadrant" or "Domestic Insurer").

The Domestic Insurer is a wholly owned subsidiary of Executive Risk Indemnity Inc. (“Executive Risk”), a Delaware corporation that is a wholly owned subsidiary of Federal Insurance Company (“Federal”), an Indiana domiciled insurance company.

Supplemental information was subsequently requested by the Department and provided by the Applicants. An Amended Application was filed with the Department on November 2, 2006 with the final Amended Application filed on November 8, 2006.

The Proposed Acquisition will be effected pursuant to a Stock Purchase Agreement, dated as of September 26, 2006 by and among Federal, Executive Risk and Harbor Point U.S. (“Agreement”).

On November 9, 2006, I issued a notice of hearing, in which I ordered that a public hearing concerning the application for approval of the Proposed Acquisition of Control of the Domestic Insurer be held on November 29, 2006. The hearing notice was subsequently published in *The Hartford Courant*, once a week for two consecutive weeks during the period of November 13, 2006 to November 22, 2006, inclusive. The notice of hearing was also filed by the Department with the Office of the Secretary of State on November 9, 2006 and was published on the Department’s Internet website. In accordance with section 38a-8-48 of the Regulations of the Connecticut State Agencies, the following were designated as parties to this proceeding: the Applicants and the Domestic Insurer.

The following individuals participated in and/or testified at the public hearing on behalf of the Applicant and the Domestic Insurer:

Wayne Paglieri, President, Harbor Point U.S. Holdings, Jeffrey Webb, Managing Director, Harbor Point Limited and Harbor Point Re Limited represented the Applicants.

Douglas Nordstrom, Vice President and Treasurer of Federal and Vice President and Treasurer of Executive Risk represented the Domestic Insurer.

Donald B. Henderson, Esq., LeBoeuf, Lamb, Greene & MacRae LLP represented the Applicant.

Kathleen D. Monnes, Esq., Day, Berry & Howard LLP, represented the Domestic Insurer.

The following Department staff participated in the public hearing:

Beth Cook, Esq., Kathy Belfi and Joan Nakano.

Pursuant to the published hearing notice, the public was given an opportunity to speak at the hearing or to submit written comments no later than the close of business on November 24, 2006, by an Order dated November 9, 2006. No public officials or members of the public signed up to speak, spoke at the hearing, or submitted written testimony.

## II. FINDINGS OF FACT

After reviewing the exhibits entered into the record of this proceeding, and based on the written and oral testimony of the witnesses, the undersigned makes the following findings of fact:

1. Harbor Point was incorporated as a company with limited liability under the laws of Bermuda and has a principal function as a holding company for the certain wholly-owned insurance operations of the Harbor Point group including Harbor Point Re, a global property and casualty reinsurance company, incorporated as a company with limited liability under the laws of Bermuda, and Harbor Point U.S., a Delaware corporation formed principally to hold the shares of the U.S. operating companies in the Harbor Point group. Applicants are managed by boards of directors and officers appointed thereby. The principal business address of both Harbor Point and Harbor Re is Belvedere Building, 69 Pitts Bay Road, Pembroke HM 08 Bermuda. The principal business address of Harbor Point U.S. is 4 Esses Avenue, Bernardsville, New Jersey 07924.
2. Quadrant is currently licensed to write property and casualty business in 43 states and is accredited as a reinsurer in 4 states, with applications pending for accredited status in 2

additional states. Its statutory home office is located at 82 Hopmeadow Street, Simsbury, CT 06070-7683.

3. Quadrant has had no employees since January 1, 2000 to whom it paid wages, salary or other compensation or to whom it has provided any employee benefits.
4. Quadrant does not own any real property and has not owned any real property since at least January 1, 1999.
5. In accordance with the Agreement, the Applicant will purchase one hundred percent of the issued and outstanding shares of the common stock of Quadrant from Executive Risk.
6. The Merger consideration will equal the sum of \$6.2 million plus the Fair Market Value of the Investment Assets owned by the Domestic Insurer as of the close of business on the Business Day immediately preceding the Closing Date as such terms are defined in the Stock Purchase Agreement.
7. The consideration will be provided to Harbor Point U.S. by Harbor Point from available funds.
8. The nature and amount of the consideration to be paid in connection with the proposed Merger was determined by arm's length negotiation between the Applicant, Executive Risk and Federal.
9. Following the Merger, Qudarant will become a direct wholly-owned subsidiary of Harbor Point U.S. and will change the company's name to Harbor Point Re U.S. Inc. ("Harbor Point Re U.S.").

10. After the Merger, the following will be officers of Harbor Point Re U.S.:  
  
Wayne C. Paglieri, President  
Jeffrey Webb, Treasurer  
Andrew Nosal, Secretary
11. After the Merger, the following will be members of the board of directors of Harbor Point Re U.S.:  
  
Wayne Paglieri  
Jeffrey Webb  
Andrew Nosal
12. The biographical affidavits of the new members of the boards of directors and officers of Harbor Point Re U.S., which include each individual's educational background, professional credentials, and employment history, are included in the record and the files of the Insurance Department.
13. After the Merger, the underwriters currently employed by Harbor Point Services, Inc., will be transferred to Harbor Point Re U.S. Harbor Point Services, Inc., a Delaware corporation, ("Harbor Point Services") is wholly owned by Harbor Point U.S. and is licensed as a reinsurance intermediary underwriting manager that currently underwrites exclusively on behalf of Federal.
14. All U.S. reinsurance business currently underwritten by Harbor Point Services will be transitioned to Harbor Point Re U.S. over the course of 2007 and 2008.

15. Harbor Point Re U.S. will be responsible for underwriting U.S. property risk and proportional treaties, all U.S. casualty treaties and all aviation, aerospace, marine, energy, terrorism, surety, trade credit, political risk and crop treaties.
16. Harbor Point Re U.S. will have its offices in Bernardsville, New Jersey but will maintain a Connecticut domicile. The statutory address will be 20 Horseneck Lane, 2nd Floor, Greenwich, CT 06830.
17. Mr. Paglieri testified that statutory records will be maintained at the statutory location.
18. Mr. Paglieri confirmed that statutory examinations will be able to be performed at the Connecticut location.
19. Mr. Paglieri testified that the Applicants will work with the Insurance Department to develop a contingency plan should a potential receiver need to obtain physical possession of the Domestic Insurer's books and records.
20. During the 12 calendar months preceding the filing of the application, neither the Applicants, nor any person controlling, controlled by or under common control with, the Applicants nor any of the executive officers or directors of the Applicants has effected transactions in any voting securities of Quadrant.
21. Neither the Applicants, nor its affiliates, nor any person listed as a director or executive officer of the Applicants, nor anyone based upon interviews or at the suggestion of such acquiring party made any recommendations to purchase any voting securities of Quadrant during the 12 calendar months preceding the filing of the Application.

22. There are no contracts, arrangements, understandings or agreements with broker-dealers as to the solicitation to any voting security of Quadrant in which the Applicants, any affiliates of the Applicants, or any person listed as a director or executive officer of the Applicants is involved.

### III. DISCUSSION

Section 38a-132(b) of the Connecticut General Statutes specifically requires the approval of the proposed acquisition of control of the Domestic Insurer unless it is determined that:

- (A) After the change of control, the Domestic Insurer would not be able to satisfy the requirements for the issuance of licenses to write the lines of business for which they are presently licensed;
- (B) The effect of the merger or other acquisition of control would be to substantially lessen competition of insurance in this state or tend to create a monopoly in Connecticut;
- (C) The financial condition of the acquiring party is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interests of its policyholders;
- (D) The plans or proposals which the acquiring party has to liquidate the Domestic Insurer, sell its assets or consolidate or merge it with any person, or make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurer and not in the public interest;
- (E) The competence, experience and integrity of those persons who would control the operations of the Domestic Insurer are such that it would not be in the interest of the policyholders of the Domestic Insurers and of the public to permit the merger or other acquisition of control; or

(F) The acquisition of control of the Domestic Insurer is likely to be hazardous or prejudicial to those buying insurance.

**A. The ability of the Domestic Insurers to satisfy the requirements for the issuance of licenses to write the line or lines of business for which they are presently licensed following the proposed acquisition of control.**

The Domestic Insurer is a domestic insurance company currently licensed pursuant to section 38a-41 of the Connecticut General Statutes. Section 38a-72 of the Connecticut General Statutes requires that a domestic stock property and casualty reinsurance company must have a minimum of \$2,000,000 in capital and \$2,000,000 in paid-in surplus in the aggregate. The Domestic Insurer currently satisfies the requirements for the issuance of a license to write the lines of business for which it is licensed.

As noted in the findings of fact, following consummation of the Merger, the Applicant has no plans or proposals to liquidate the Domestic Insurer, to sell its assets, merge, or consolidate the Domestic Insurer with any other person or entity. There are no plans for the Domestic Insurer to enter into any material contract, agreement, arrangement or transaction of any kind with any person or entity. In addition to the criteria set forth in section 38a-72 of the Connecticut General Statutes, the Department considers the location of the company's books, records and assets, and the management of the company when evaluating an insurer's ability to operate pursuant to 38a-41 of the Connecticut General Statutes. The Applicant testified that statutory records will be maintained in the Connecticut location and examinations will be able to be conducted in Connecticut.

The Applicant also submitted evidence that the information contained in the biographical affidavits for the directors and officers of Applicant proposed for the Domestic Insurer attest to the competence, experience and integrity of the individuals who will be responsible for the



governance and operation of the Domestic Insurer, and should insure the safe and expert operation of the Domestic Insurer following the Proposed Acquisition.

Accordingly, it is the conclusion of the Insurance Department that the evidence contained in the record supports a finding that the Applicant will be able to satisfy the requirements for the issuance of the necessary license of an insurer for which it is presently licensed following the proposed acquisition of control of the Domestic Insurer.

**B. Whether the effect of the Proposed Acquisition would be to substantially lessen competition of insurance in this state or tend to create a monopoly herein.**

The Applicants do not currently transact direct insurance business in Connecticut. Therefore, it is hereby concluded that the effect of the acquisition of control by the Applicant will not substantially lessen competition of insurance or tend to create a monopoly in Connecticut.

**C. Whether the financial condition of the Applicant is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interests of their policyholders.**

Based on the written testimony and the evidence contained in the record, there is no evidence that would indicate the financial condition of the Applicant might jeopardize the financial condition of the Domestic Insurer, or prejudice the interest of the policyholders.

**D. Whether the plans or proposals which the Applicant has to liquidate the Domestic Insurer, sell their assets or consolidate or merge them with any person, or to make any other material change in their business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurer and not in the public interest.**

The record reveals that the Applicant has no current plans or proposals to liquidate the Domestic Insurers, to sell their assets, or consolidate or merge them with any other entity.

Accordingly, the record supports the conclusion that there are no plans or proposals for the Domestic Insurer that are unfair and unreasonable to policyholders of the Domestic Insurer or not in the public interest.

**E. Whether the competence, experience and integrity of those persons who would control the operation of the Domestic Insurer are such that it would not be in the interest of the policyholders of the Domestic Insurer and of the public to permit the Proposed Acquisition or other acquisition of control.**

The record includes the biographical affidavits of those individuals who will serve as members of the board and as officers of the Applicants and the Domestic Insurer following the change of control. The biographical affidavits disclose each individual's educational background, professional credentials and their employment history. In addition, the Applicant has represented, and the biographical affidavits confirm, that during the last ten years none of the proposed directors or officers of the Applicants and Domestic Insurer have been convicted in a criminal proceeding (excluding minor traffic violations) or have been convicted or otherwise penalized for violating any federal or state law regulating the business of insurance securities or banking, (or in the case of an alien person, such equivalent provision as applicable). During the last ten years, none of the proposed directors or officers of the Applicants have been the subject of any proceeding under the Federal Bankruptcy Code, (or in the case of an alien person, such equivalent provision as applicable) or have been affiliated with a business or organization which has been subject to such proceeding.

Furthermore, no proposed director or officer of the Applicants or Domestic Insurer has had a revocation, suspension or disciplinary sanction imposed against him or her by a governmental agency. None of the filed biographical affidavits contain any information that reflects negatively on the integrity of these individuals. The competence, experience, and integrity of those persons who would control the operations of the Domestic Insurer after the Proposed Acquisition is such that it would be in the interest of policyholders of the Domestic Insurer, and in the public interest to permit the Proposed Acquisition.

**F. Whether the acquisition is likely to be hazardous or prejudicial to those buying insurance.**

Based on the financial strength of the Applicant, the affirmation that the current plans of the Applicant for the Domestic Insurer will provide a strong and stable financial environment for the Domestic Insurer, it is hereby concluded that the proposed acquisition of control of the Domestic Insurer is not likely to be hazardous to those buying insurance.

Accordingly, assuming compliance with all of Connecticut's insurance statutes and regulations, it is reasonable to conclude that the proposed acquisition of control of the Domestic Insurer is not likely to be hazardous to those buying insurance.

**IV. RECOMMENDATION**

Accordingly, based on the foregoing findings of fact and discussion, the written testimony and exhibits submitted, the record of the November 29, 2006 public hearing, and the recommendation of the Insurance Department staff, I conclude that the Applicants have satisfied the statutory criteria as provided in section 38a-132(b) of the Connecticut General Statutes. Accordingly, I find that pursuant to the relevant section 38a-132(b) of the Connecticut General Statutes that after the proposed acquisition of control (a) the Domestic Insurers will be able to

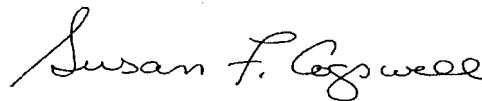
meet the requirements for licensing in this state; (b) the effect of the acquisition of control will not be to substantially lessen competition in this state or tend to create a monopoly therein; (c) the financial condition of the Applicants is not such as might jeopardize the financial stability of the Domestic Insurer, or prejudice the interest of their policyholders; (d) the plans or proposals for the Domestic Insurer are not unfair and unreasonable to their policyholders, and are in the public interest; (e) the competence, experience and integrity of the management of the Applicants is such that it would be in the interest of policyholders of the Domestic Insurer, and of the public to permit the proposed acquisition of control; and (f) the acquisition of control of the Domestic Insurer is not likely to be hazardous or prejudicial to those buying insurance.

Accordingly, I order the following:

1. The Form A Application of the Applicants in which they seek approval to acquire control of the Domestic Insurer is hereby approved.
2. The Applicants shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.
3. Within fifteen (15) days following the end of the month in which the proposed acquisition is consummated, the Domestic Insurer shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.
3. For a period of two (2) years, the Domestic Insurer shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, the status of the integration with the Applicants, changes to the business of the Domestic

- Insurer; changes in officers of Harbor Point Re U.S.; any changes in the statutory location in Connecticut; and, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant and Harbor Point Re U.S.
4. The Applicants shall provide the Department with the names and titles of those individuals who will be responsible for filing transactions for prior approval pursuant to Conn. Gen. Stats. 38a-135 and 38a-136.
  5. If the proposed transaction is not consummated within three (3) months of the date of this Order and the Applicants intend to consummate the proposed transaction, the Applicants shall submit to the Commissioner a statement, which shall include (1) the reason for the Applicants' inability to consummate the proposed transaction; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicants and the Domestic Insurers.
  6. The Applicants shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 7<sup>th</sup> day of December, 2006



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Susan F. Cogswell  
Insurance Commissioner